USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

Required Report - public distribution

Date: 4/7/2009

GAIN Report Number: GT9004

Guatemala

SUGAR ANNUAL

2009

Approved By:
Robert Hoff, Agricultural Counselor

Prepared By:
Karla Tay, Agricultural Specialist

Report Highlights:
Sugar production for Marketing Year (MY 2009 November-October basis) is forecast at 2.25 million tons, as MY 2008. Though planted area has been increasing on average by 4,000 Ha on a yearly basis, for the past three years, sugar cane yields have dropped due to unfavorable weather. The rainy season lasted longer and the number of days of sunlight declined. Production for MY 2008 has been revised upward to 2.247 million tons, 2% above previous estimate. Total exports for MY 2009 are forecast at 1.5 million tons, with a considerable shift to increased exports of refined sugar. Major export destinations for Guatemalan raw sugar are the United States, Canada, and South Korea. Chile has become a major export market for refined sugar. The increase in refined exports is now a major objective for the Guatemalan sugar industry.

Executive Summary:

Guatemala's sugar industry has slightly grown due to increases in planted area. In MY 2009, area planted is forecast at 220,000 hectares. Though sugarcane yields are forecast to decrease, sugar yields are expected to recover. The Guatemalan sugar industry continues to be one of the most efficient in terms of port loading (200,000 MT/Hour). Guatemala has the biggest storage capacity for the Central American region (365,000 MT).

Consumption for MY2009 is placed at 745,000 MT, close to Post's MY2008 estimate. This is directly related to a decrease in industrial consumption for confectionary goods, given the increased imports of cheaper Mexican products. Exports for MY2009 are forecast at 1.5 million tons, similar to those in MY2008. Guatemala continues exporting around 65% of its total production and is the world's fourth largest exporter (Guatemalan exports represent 3 percent of total world exports) and fourth biggest producer in Latin America. The U.S., Canada, and Korea continue to be major export markets for raw sugar. Refined exports to Chile, Jamaica, Haiti, and Taiwan are also on the upswing. The Guatemalan sugar industry is now moving more into the exportation of refined sugar, which is a higher value added product. To get into the refined business, Guatemala has opened a new facility in Puerto Quetzal, with capacity for 66,000 MT, for the storage of 50 Kg bags for container transportation. Just six years ago, raw sugar exports represented 89% of the export market for Guatemala. By MY 2008, raw sugar exports dropped to 58%, while refined sugar experienced a four fold increase in its market share, representing 42% of the export market. This evolution has increased the South American and Caribbean share in the Guatemalan export market, decreasing significantly Guatemalan sugar exports to Eastern and Central Europe.

Commodities:
Sugar, Centrifugal

Production:

For the MY 2009 crop, sugarcane yields are expected to drop slightly due to unfavorable weather. The highest sugarcane yield was reported in MY 2007, when it reached 94.3 MT/Ha. The record sugar yield was reported for MY 2000, 115 Kg/MT. For the following years, the sugar yield has been dropping. For MY 2008, the sugar yield is placed at 106 Kg/MT (which is still higher than 99 Kg/MT reported prior to MY 2000). This loss in efficiency is explained by the extended rainy season and reduced sunlight. Sugar yields are expected to recover during MY 2009.

Table 1
Evolution of Guatemalan Sugar Industry over the last 15 years

MY	Harvested Area (Ha)	Sugar Cane (1000 MT)	Sugar Cane Yield (MT/Ha)	Daily milling capacity of the industry (MT)	SUGAR PRODUCTION			Sugar Yield	
					Quintal* (Millions)	Sacks (Million)	MT	(Pounds/ Short Ton (ST))	(Kg/MT)
1985	84	5,570	66.3	53,093	11.95	11.00	549,831	197	99
1995	150	12,917	86.1	73,852	28.11	25.87	1,293,259	200	100
2000	180	14,339	79.7	116,747	35.98	33.10	1,655,235	231	115
2005	197	17,820	90.5	120,713	44.29	40.74	2,037,130	229	114
2006	194	16,367	84.4	127,597	40.16	36.95	1,847,402	226	113
2007	210	19,813	94.3	130,912	47.17	43.40	2,169,886	219	110
2008	216	19,957	92.4	135,593	46.07	42.39	2,119,357	212	106
2009 (e)	220	20,157	91.6	135,593	48.86	44.95	2,247,504	223	112

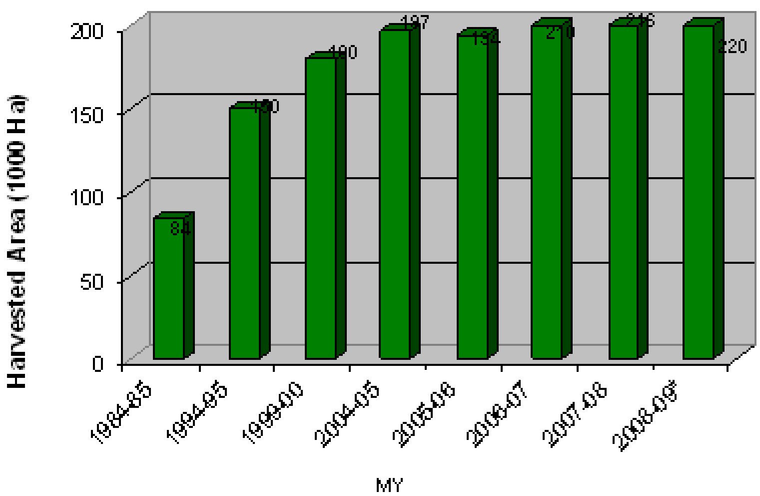
* 1 Quintal = 0.046 MT or 1 MT=21.79 Quintales

Source: Guatemalan Sugar Association, ASAZGUA, 2009

The area planted to sugarcane for MY2009 is forecast at 220,000 hectares, up about 2 percent compared to 2008. Typically, changes in area planted directly respond to sugarcane contracts offered by sugar mills, the price formula for sugarcane, and the relative profitability of crops such as bananas and palm. Producers are expanding planted area toward the borders with El Salvador; they cannot push west toward the Mexican border since those areas are highly competitive in banana and palm oil production. There is also new planted area in the eastern part of the country.

Figure 1

Harvested Area of Sugarcane in Guatemala



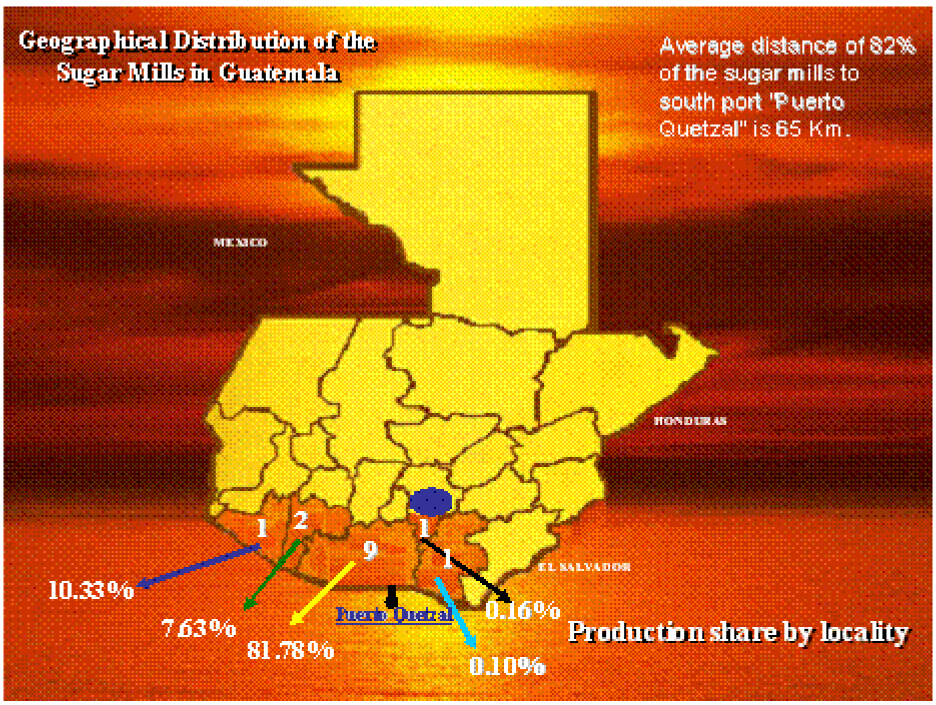
Source: Guatemalan Sugar Association, ASAZGUA, 2009

The Guatemalan Sugarcane Research Center, CENGICAÑA, supports the industry with research and technical assistance. Its objective is to improve and increase sugarcane and by-product production and yields, by generating and transferring quality technology for the profitable and sustainable development of the industry. Its main goals are to increase sugar yields and to improve varieties through research programs. CENGICAÑA's assistance has been very valuable to the sugar industry in keeping yields at acceptable levels despite poor weather conditions. In January 2007, CENGICAÑA was ISO 9001:2000 certified. In 2007 it started the ISO 17025:2005 certification process for its agricultural laboratory, and is already implementing ISO 14000 environmental certification. According to officials at CENGICAÑA, the total potential area that could be planted to sugarcane is 350,000 hectares, which could yield up to 30 million MT of sugarcane. However, it is unlikely that all this land will be used for cane, but provides a rough estimate of the country´s potential.

There are 14 active sugar mills in the country, 82% of which are located very close to Puerto Quetzal. They are, on average, 65 Km. away from the port (please see map). Combined milling capacity is 130,000 MT per day. MY 2009 sugar production is forecast at 2.25 million metric tons, similar to that of MY 2008 production.

Figure 2

Geographical Distribution of the Sugar Mills in Guatemala



Source: Guatemalan Sugar Association, ASAZGUA, 2009

There are already 5 sugar mills currently producing alcohol: Palo Gordo (100,000 liters/day), Magdalena & Madre Tierra (300,000 liters/day), DARSA (100,000 liters/day), and Pantaleon -Bio-Etanol Co. (150,000 liters/day initial capacity). Most of the alcohol is exported to the European Union, Central America and Mexico. Other mills are adding alcohol refineries, and the industry hopes to increase ethanol production for use as motor fuel. Guatemala is interested in supplying locally produced alcohol from domestic sugarcane and, potentially, might be able to provide all the region with enough ethanol to account for a 10% blend with gasoline.
Approximately 40 percent of Guatemalan sugarcane is irrigated. The sugar industry generates around 62,000 full-time jobs, which support around 250,000 people. In addition, the sugar industry generates employment indirectly for another 350,000 people, 33,000 of whom are sugarcane harvesters. The sugar industry also contributed with 298 MW of energy potency during 2008, supplying around 21% of energy to the national grid system.

The average cost of production for 2009 follows, based on a correction of last year data, and assuming inflation rate at 6.5% (BANGUAT, February 2009):

DESCRIPTION	VALUE $/HA In Quetzales (Q8.1=US $1)	Percentage Share
Land preparation	131.16	8%
Planting	451.40	28%
Weed control out of cane plantation	7.85	0.5%
Weed control inside of cane plantation	108.20	7%
Fertilization	96.52	6%
Irrigation	197.83	12%
Maturing agents application	22.95	1.5%
Experiments	8.06	0.5%
Pest control	19.40	1.5%
Harvesting	553.06	35%
TOTAL	1596.43	100.00

The Guatemalan Sugar Association, ("Asociación de Azucareros de Guatemala" - ASAZGUA), through a price formula set sometime before the harvest season starts, determines the price for sugarcane. The price is based on a minimum of 87.5 kilos of sugar per metric ton of sugarcane. For sugar content above the basis, the producer receives a proportional upward adjustment.

Local sugar prices (in U.S. dollars) for 2009 are as follows:

At Mill	Wholesaler	Retailer
$0.22/lbs	$0.26/lbs	$0.29/lbs

During MY 2008, the average price of sugar for the final consumer was $ 0.32/pound. Sugar prices in Guatemala are the second cheapest in Central America after Nicaragua ($ 0.28/pound). Within the region, El Salvador has the highest sugar prices available for the final consumer ($ 0.39/pound).

Consumption:

Consumption for MY2009 is expected to remain steady at 745,000 MT due primarily to lesser demand by the local confectionary industry, which has been affected negatively by increased imports of cheaper Mexican sweetened products. Per capita consumption of sugar is almost 53 Kg.

"Comercializadora de Guatemala" (COMETRO) maintains a legal oligopoly on the domestic wholesale and retail markets, established by government decree in 1997. COMETRO markets and distributes to retailers through 38 warehouses strategically located throughout the country. Competition from other retailers has forced COMETRO to come out with new marketing strategies in order to compete with small retailers offering lower prices due to lower costs in packaging, transportation, and others.

In Guatemala almost all wholesale sugar is sold through COMETRO. There are ways of buying wholesale from mills, but it is very difficult and the amounts are very small. However, in the retail market, anyone can sell.

Alternative sweeteners and other alternative sugar products are not a detrimental or significant factor in total domestic sugar consumption. Sugar confectionery imports and sugar smuggling from Mexico have had some effect on sugar consumption. Currently, domestic consumption is split 28% for industrial and 72% for human. The soft drink industry is the major industrial consumer of sugar, followed by confectioneries, bakeries, juice makers, dairy producers, and pharmaceutical companies.

Trade:

Export Trade Matrix			
Country	Guatemala		
Commodity	Centrifugal Sugar		
Time period	Jan-Dec		
2007		**2008**	
U.S. (including re-exports)	163,978	U.S. (including re-exports)	459,629
Others		Others	
South Korea	229,600	Chile	279,371
Canada	213,375	Canada	219,963
Venezuela	100,180	South Korea	85,707
China	97,022	Jamaica	69,543
Chile	92,847	Haiti	43,322
Taiwan	55,358	Taiwan	25,601
Jamaica	55,065	Peru	19,472
Russian Fed	35,500	Puerto Rico (U.S.)	19,302
Malaysia	33,300	Venezuela	18,885
Peru	21,633	Trinidad	15,066
Bangladesh	20,000	Dominican republic	11,774
Total for others	953,880	Total for others	808,006
Others not listed	177,243	Others not listed	65,878
Grand Total	1,295,101	Grand Total	1,333,513

During CY 2008, Guatemala exported almost $ 407 million in raw and refined sugar, representing second biggest source of foreign exchange for the country. Guatemala is the fourth largest exporter and the fourth largest producer in Latin America and the Caribbean. In MY2008 Guatemala exported 1.3 million MT. Exports for MY2009 are forecast at 1.5 million tons. Guatemala continues exporting around 65% of its total production. The U.S., Canada, and South Korea continue to be major export markets for raw sugar. Refined exports to Chile, Jamaica, Haiti, and Taiwan are also on the upswing. The Guatemalan sugar industry is focusing its exports more on refined sugar, which is a higher value added product. To get into the refined sugar business, Guatemala has opened a new facility in Puerto Quetzal, with a capacity for 66,000 MT, of 50 Kg bags for container transportation.

In MY 2008, raw sugar exports represented 58%, while refined sugar represented 42% of the exports market, a substantial increase from 2000. This evolution has increased the South American and Caribbean share in Guatemalan export market, decreasing significantly exports of raw sugar to Eastern and Central Europe.

Stocks:
MY 2009 ending stocks are expected to be significantly down from those of MY 2008. Domestic stocks are held in warehouses managed by COMETRO throughout the country. All exported sugar is held in warehouses managed by EXPOGRANEL, located at Puerto Quetzal. Its warehousing capacity has increased to 365,000 MT for bulk sugar, and 66,000 MT for refined sugar (50 Kg sacks). It has a loading capacity of 2,200 MT per hour, comparable to Brazil and Australia. Port improvements are under way, opening the

possibilities to increase export competition, as bigger vessels will have access, thus reducing transportation costs.

Policy:

The Sugar Board of Guatemala, which includes representatives from the Ministry of Economy, sugarcane producers, and sugar mills, establishes production goals, sets sugarcane prices, and allocates the U.S. sugar quota to the different sugar mills. The allocation to each mill is based on past production performance, previous quotas, and milling capacity. According to the law, all sugar sold domestically must be enriched with vitamin A. The industry claims to invest $3.5 million a year in vitamin A. Presently, Guatemala has no quotas for imported sugar. All imports are assessed a tariff of 20 percent and must comply with the enrichment law.

The sugar industry is increasingly more involved in social responsibility projects. The social responsibility arm of the sugar industry, FUNDAZUCAR, has received high local recognition for its support and impact on health and education in the communities that have developed around the sugar production sites.

Marketing:

ASAZGUA is continuing its marketing strategy designed to maintain domestic sugar consumption, in response to the increasing presence of artificial sweeteners. Both by radio and visual media, the sugar industry is promoting the fact that natural sugar contains "just 16 calories per teaspoon". The industry has been very successful with this approach. The main export strategy is geared to increase refined sugar exports.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Guatemala	2008 2007/2008 Market Year Begin: Nov 2007			2009 2008/2009 Market Year Begin: Nov 2008			2010 2009/2010 Market Year Begin: Nov 2009	
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed	Jan Data
Beginning Stocks	412	412	412	466	466	0	479	0
Beet Sugar Production	0	0		0	0		0	
Cane Sugar Production	2,200	2,274		2,340	2,247		2,250	
Total Sugar Production	2,200	2,274	0	2,340	2,247	0	2,250	0
Raw Imports	0	0		0	0		0	
Refined Imp.(Raw Val)	0	0		0	0		0	
Total Imports	0	0		0	0		0	
Total Supply	2,612	2,686	412	2,806	2,713	0	2,729	0
Raw Exports	1,073	748		1,290	745		750	
Refined Exp.(Raw Val)	329	585		300	745		765	
Total Exports	1,402	1,333	0	1,590	1,490	0	1,515	0
Human Dom. Consumption	744	744		745	744		745	
Other Disappearance	0	0		0	0		0	
Total Use	744	744	0	745	744	0	745	0
Ending Stocks	466	609		471	479		469	
Total Distribution	2,612	2,686	0	2,806	2,713	0	2,729	0